

## Message Text

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ORIGIN EA-09

INFO OCT-01 ISO-00 EB-08 OES-06 L-03 /027 R

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TO AMEMBASSY JAKARTA

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E.O. 11652: N/A

TAGS: ENRG, ID

SUBJECT: INDONESIAN LNG FOR CALIFORNIA

1. FPC STAFF MEMBER REPORTS LAST DAY OF HEARINGS WAS FEB 25. DEADLINE FOR FILING OF INITIAL BRIEFS IS APRIL 15, FOR FILING OF REPLY BRIEFS MAY 6. ADMINISTRATIVE LAW JUDGE WILL REQUIRE A MONTH OR TWO TO ISSUE HIS DECISION. THEN FOLLOWS 30 DAYS FOR FILING OF BRIEFS TAKING EXCEPTION AND ANOTHER 20 DAYS FOR BRIEFS OPPOSING EXCEPTIONS THAT HAVE BEEN TAKEN. WHOLE DOSSIER GIVEN NEXT TO COMMISSIONERS, WHO PROBABLY WILL TAKE ABOUT TWO MONTHS TO REACH THEIR DECISION. PROCESS MIGHT THEREFORE BE FINISHED BY END OF OCTOBER. PERTAMINA'S COUNSEL IN LNG AFFAIRS (VINSON, ELKINS, SEARLS, CONALLY AND SMITH OF HOUSTON) HAS BEEN ASKED TO GET GOI'S FORMAL EXTENSION OF ITS APRIL 6 DEADLINE FOR USG APPROVAL TILL SOMETIME IN FALL.

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2. IN RECENT SIMILAR BASELOAD CASE INVOLVING ALGERIAN LNG (TRUNKLINE), ADMINISTRATIVE LAW JUDGE FOUND LITTLE IN IMPORTATION PROPOSAL TO FAULT SERIOUSLY, INCLUDING A PRICE ESCALATION FORMULA (LIKE THAT OF PERTAMINA) TIED IN PART TO PRICE OF CRUDE OIL. IN ITS JUNE 4, 1976 ORDER AFFECTING ALGERIAN LNG PURCHASED BY DISTRIGAS CORP.,

HOWEVER, FULL COMMISSION NOTED THAT HERETOFORE IT HAD CONTROL OVER NATURAL GAS RATES CHARGED BY BOTH PRODUCER AND PIPELINE AND COULD THEREFORE ASSURE THAT COSTS WHICH WERE TO BE FLOWED THROUGH TO ULTIMATE CONSUMERS UNDER A PURCHASED GAS ADJUSTMENT (PGA) CLAUSE WOULD BE JUST AND REASONABLE. IN DISTRIGAS/SONATRACH CASE SUPPLIER'S CHARGES WOULD BE BEYOND FPC'S CONTROL. SINCE COMMISSION'S REGULATIONS PROHIBIT USE OF AUTOMATIC PRICE ADJUSTMENT PROVISIONS SUCH AS THOSE PROPOSED BY DISTRIGAS, AND SINCE COMMISSION COULD FIND NO GOOD CAUSE FOR WAIVING THESE REGULATIONS, IT REJECTED DISTRIGAS' PROPOSED PURCHASED LNG COST ADJUSTMENT CLAUSE. IT REMAINS TO BE SEEN WHETHER COMMISSIONERS WILL SUPPORT TRUNKLINE CASE LAW JUDGE'S ACCEPTANCE OF AUTOMATIC PASS-THROUGHS OF ALGERIAN PRICE INCREASES. IF NOT, ALTERNATIVES WOULD PROBABLY INCLUDE U.S. IMPORTER/DISTRIBUTOR GOING BACK TO FPC FOR APPROVAL EACH TIME ALGERIA RAISED LNG PRICE, OR ALGERIA ACCEPTING IN ADVANCE OF SHIPMENTS SOME FIXED-AMOUNT PRICE ESCALATION FORMULA WHICH FPC WOULD ALSO HAVE TO APPROVE. (BUT NEITHER ALTERNATIVE SEEMS VERY REALISTIC.)

3. TALK WITH O'ROURKE OF SOUTHERN CALIFORNIA GAS DISCLOSES THAT IN EFFORT TO SHORTEN FPC PROCESS, PACIFIC LIGHTING WILL FILE MOTION WITH COMMISSIONERS TO HAVE DECISION BY ADMINISTRATIVE LAW JUDGE WAIVED; PL WILL BE ASKING THAT CASE GO DIRECTLY TO COMMISSIONERS. THIS PROCEDURE, IF APPROVED, MIGHT BRING FPC DECISION LIMITED OFFICIAL USE

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TWO MONTHS CLOSER. MEANWHILE, CALIFORNIA SITUATION IS STILL CONFUSED. GOV. BROWN HAS HELPED BY INDICATING HE WILL SPONSOR LEGISLATION ESTABLISHING A ONE-STOP PROCEDURE FOR APPROVAL OF LNG TERMINALS. INITIALLY, HE SUPPORTED PL/PG AND E'S TARGET OF ALL CALIFORNIA APPROVALS IN HAND BY END OF THIS YEAR, SO THAT INDONESIAN GAS COULD BEGIN TO FLOW BY WINTER OF 1980/1. LATER, HOWEVER, HIS PRESS SPOKESMAN TALKED IN TERMS OF GETTING ALL APPROVALS BY EARLY 1978, SO AS HAVE INDONESIAN GAS BY WINTER OF 1981/2. ASSEMBLYMAN GOGGIN HAS INTRODUCED HIS OWN LEGISLATION TO "EXPEDITE" LNG TERMINAL CONSTRUCTION, BUT MECHANISMS PROPOSED WOULD PROBABLY DELAY MATTERS. IN ANY EVENT, TODD AND O'ROURKE WILL BE JOURNEYING TO JAKARTA SOON TO ASK PERTAMINA TO EXTEND ITS DEADLINE FOR U.S. APPROVALS TILL JANUARY 1978.

4. PL/PG AND E REQUEST TO FEA (NOT FPC AS REPORTED IN STATE 5572) FOR LPG IMPORT ALLOCATION HAS APPARENTLY BEEN DELAYED BY FEA'S NEED TO SOLVE DOMESTIC GAS

SUPPLY EMERGENCIES. INTERIM FEA REPLY SUGGESTED NO PROBLEMS WITH APPROVAL, BARRING ANYTHING UNFORESEEN IN ENVIRONMENTAL IMPACT STUDY. LPG SOURCE STILL NOT SETTLED UPON. CALIFORNIA APPROVALS MUST FOLLOW FEA'S.

5. O'ROURKE THOUGHT LEINBACH OF LEHMAN BROTHERS MADE PERSUASIVE CASE ON FINAL DAY OF FPC HEARINGS THAT PERTAMINA WOULD HAVE FULL GOI SUPPORT AND WOULD BE ABLE TO FINANCE CONSTRUCTION OF LIQUEFACTION AND TERMINAL FACILITIES AT LHOKESEUMAWE.

6. TECHNICALLY, TANKER CHARTERS EXPIRED DEC 31, 1976, BUT O'ROURKE CONFIDENT THAT THEIR LIFE HAS BEEN EXTENDED. (THEIR TERMS BECOME FIRM WHEN ALL U.S. APPROVALS ARE IN HAND). IN ANY EVENT, NO SHIP CONSTRUCTION CONTRACTS HAVE BEEN LET YET.

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## Message Attributes

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